



Media Release

RAM Ratings reaffirms KLK's global-scale and national-scale ratings

RAM Ratings has reaffirmed the global corporate credit ratings of Kuala Lumpur Kepong Berhad (KLK or the Group) at gA_3 /Stable/ gP2 . Concurrently, we have reaffirmed the ratings of its multi-currency IMTN programmes as follows:

Instrument	Rating Action	Rating
RM1.6 billion Multi-Currency IMTN Programme (2015/2027)	Reaffirmed	AA ₁ /Stable
RM1.0 billion Multi-Currency IMTN Programme (2012/2022)	Reaffirmed	AA ₁ /Stable

The reaffirmation of the ratings is premised on our expectations that KLK's credit metrics will remain commensurate with the ratings over the next 1-2 years, supported by recovery in its plantation production, the maturing of its young palms especially in Indonesia, and growth in its manufacturing segment. The Group's credit metrics had stayed intact and within expectations in 1H FY Sep 2017 despite weaker manufacturing profits due to the higher prices of crude palm kernel oil and a heavier-than-expected debt load. Given lower working capital requirements under our stressed CPO price expectations, the Group's gearing and funds from operations (FFO) debt cover are envisaged to come in below 0.35 times and above 0.40 times, respectively, over the next 3 years.

KLK saw its fresh fruit bunch (FFB) production decline 8% y-o-y in FY Sep 2016 owing to the lagged effects of El Nino weather conditions experienced in 2015. As a result, the Group recorded its lowest CPO yield of 4.42 metric tonnes per mature hectare over the last decade. Nevertheless, FFB production rebounded by 7% in 1H FY Sep 2017, with stronger recovery noted in the second quarter. This nearly doubled the Group's plantation profits y-o-y, offsetting the poor contribution from its manufacturing segment whose profits plunged 66%. KLK's overall yields are expected to improve going forward, driven by yield recovery and the younger tree profile of its Indonesian estates.

As at end-March 2017, the Group's balance sheet remained strong despite a higher-than-expected debt level, while its large cash pile continued to keep its net debt coverage ratios within comfortable ranges. KLK's gearing and net gearing ratios were within our expectations at 0.42 times and 0.29 times, respectively, as at the same date. The Group's borrowings had increased by 18% y-o-y, consisting of short-term trade financing, secured to fund working capital required for its enlarged mid- and downstream capacities and the trading of refined products. On the back of

stronger profits, KLK's annualised FFO debt cover improved to 0.36 times in 1H FY Sep 2017 (1H FY Sep 2016: 0.33 times). While we envisage lower working capital requirements going forward, we recognise that KLK's working capital can spike in the event CPO prices increase substantially. Any material leveraging, however, will have to be accompanied by requisite cashflows to preserve the Group's credit standing.

KLK retained its prominent position as the third-largest plantation company locally and among the top 10 worldwide. Its integrated operations are spread across Malaysia, Indonesia, Liberia, Europe and China. This, along with the Group's fairly lean cost of production, will continue to provide it with a sufficient buffer to weather industry downcycles.

The operating environment of the Group's enlarged mid- and downstream businesses, which continues to be plagued by persistent overcapacity and volatile feedstock costs, moderates the ratings. As with other planters, KLK is susceptible to the volatility of CPO prices. In addition, its exposure to operational risk is heightened by its estates in Indonesia and Liberia.

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